

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2013-1

RESPONSE OF UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 4
(November 1, 2012)

The Postal Service hereby files its responses to questions 1-7 of
Chairman's Information Request No. 4, issued on October 25, 2012. Each
question is stated verbatim, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Simple Samples

1. The Postal Service proposes several new pricing and preparation standards for parcels in Standard Mail High Density and Saturation Flats/Parcels, and Standard Mail Carrier Route. See Notice at 25.
 - a. Please confirm that these changes would:
 - i. shift High Density Parcels from High Density and Saturation Flats/Parcels to Carrier Route;
 - ii. separate Saturation Parcels from High Density and Saturation Flats and Parcels for separate rate treatment;
 - iii. provide volume discounts to mailers on a per-piece basis, eliminating the piece/pound breakpoint;
 - iv. eliminate workshare discounts for dropshipping and presorting between High Density and Carrier Route Parcels; and
 - v. introduce new pallet/sack/carton handling fees.
 - b. If any subpart is not confirmed, please explain.

RESPONSE:

- a.
 - i. Confirmed.
 - ii. Saturation Parcels is a separate rate category within High Density and Saturation Flats/Parcels under the current structure. After the new "Simple Samples" structure is implemented on January 27, 2013, Saturation Parcels will remain a separate price category within High Density and Saturation Flats/Parcels.
 - iii. Confirmed.
 - iv. Confirmed.
 - v. Confirmed.

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- b. The Simple Samples proposal is merely modifying the pricing for two price categories within two products: Standard Mail High Density and Saturation Flats/Parcels, and Standard Mail Carrier Route. The current prices for parcels in these two price categories are essentially unused by customers today. The goal of the new pricing is to make sending samples more attractive to customers.

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2. Please provide the following information to enable the Commission to analyze the impact of the new Simple Samples classification:
- a. a copy of the Governor's decision supporting the proposal, if any, pursuant to 39 CFR 3020.31(b);
 - b. a description of the availability and nature of enterprises in the public sector engaged in the delivery of the product pursuant to 39 CFR 3020.32(f);
 - c. any information available on the views of those who use the product on the appropriateness of the proposed modification pursuant to 39 CFR 3020.32(g);
 - d. a description of the likely impact of the proposed modification on small business concerns pursuant to 39 CFR 3020.32(h); and
 - e. any such information and data, and such statements of reasons and bases, as are necessary and appropriate to fully inform the Commission of the nature, scope, significance, and impact of the proposal pursuant to 39 CFR 3020.32(i).

RESPONSE:

- a. There is no Governors Decision for Market-Dominant products.
- b. Users of this product include Consumer Packaged Goods companies (CPGs) and Mail Service Providers who prepare and mail product samples on behalf of CPGs.
- c. Feedback on the modification from Mail Service Providers who mail product samples on behalf of CPGs has been positive. Both the volume discounts and the simplified pricing were cited as attractive. The existing price structure is not favorable as there is little volume today. The new structure should be even more attractive to the few customers using the current rates because the new structure will reduce their postage costs.

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- d. No negative impact on small businesses is anticipated, and some small business CPGs would benefit from the lower prices.
- e. In determining how to grow product samples, discussions were held with the mailing community to gain feedback to ensure this modification would not negatively impact the mailing of samples but would instead help the product samples industry to use the Postal Service.

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3. Please refer to the new pricing structures for Carrier Route Parcels, High Density Parcels, and Saturation Parcels. See Notice, Attachment A at 26-27, 30, and 36-37. The new structure eliminates some workshare discounts, but adds handling fees based on the entry dropship/presort level. Pursuant to 39 CFR 3010.14(c), please provide the following information regarding the new handling fees.
- a. a statement explaining the reasons for establishing the discounts;
 - b. all data, economic analyses, and other information relied on to justify the discounts; and
 - c. a certification based on comprehensive, competent analyses that the discount will not adversely affect either the rates or the service levels of users of postal services who do not take advantage of the discounts.

RESPONSE:

- a. The Postal Service is not proposing the establishment of any new worksharing relationships for Simple Samples. One could argue that the handling fees are reverse discounts. But that is not how the prices were developed, or the Postal Service's intent.
- b. The following was done in order to determine the Simple Samples pricing. For the piece prices, both in-office and street costs were analyzed. To encourage more volume, prices for Saturation parcels are lower than prices for Carrier Route parcels. Furthermore, we provided volume discounts (lower per piece prices based on how many parcels are in the mailing).

The carton and pallet handling fees were built from the bottom up, taking into consideration transportation costs and mail processing costs such

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as cross docking the pallet and sorting the carton. The fees therefore are not the result of establishing a cost benchmark and discounting from there. Instead, the fees reflect a combination of costs related to entry point and type of container. These fees thus are comparable to the Periodicals Outside County bundle and container prices, which are not treated as workshare discounts. See the Postal Service's Notice of Market-Dominant Price Adjustment, page 52, including note 27.

- c. Most customers who mail samples are medium to large Mail Service Providers versus smaller niche companies. Therefore most customers have an equal opportunity to take advantage of the price options offered based on the size of the mailing. For any small niche companies mailing samples (and we believe there are not many of these companies), Priority Mail Open and Distribute (PMOD) is available as an option to induct the mail at origin. PMOD provides the option for customers to ship cartons, sacks, or pallets from origin locations to destination facilities via Priority Mail.

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4. Please refer to the new pricing structures for Carrier Route Parcels, High Density Parcels, and Saturation Parcels. See Notice, Attachment A at 26-28, 30, and 36-37.
- a. Please explain price options available to a mailer who wishes to enter mail at an origin facility.
 - b. Please explain price options available to a mailer who wishes to enter mail at a destination delivery unit.
 - c. Please provide examples of when a mailer would be charged the 3-Digit Pallet Presort Carton/Sack Handling Fees.
 - d. Please confirm that all pieces must be entered on pallets or in sacks or cartons. If not confirmed, please explain.
 - e. Please explain the rationale for pricing DNDC–5-Digit pallet handling fees (\$74.168) higher than DNDC–3-Digit pallet handling fees (\$45.614).
 - f. Given the substantial difference in handling fees, please explain what incentive a mailer has to prepare a DNDC–5-Digit pallet as opposed to a DNDC–3-Digit pallet.

RESPONSE:

- a. A mailer who wishes to enter mail at an origin facility could use PMOD, as discussed in the response to question 3(c).
- b. Mailers wishing to enter mail at a destination delivery unit would simply pay the per piece postage price as listed on pages 27 and 37 of the Attachment A. No carton/pallet fee would then apply.
- c. There is not one 3-Digit Pallet Presort Carton/Sack Handling fee. Instead, there are two separate fees. A 3-Digit Pallet fee is charged when a 3-Digit pallet is inducted into a DNDC; the fee compensates the Postal Service for

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moving the pallet from the DNDC to the appropriate DSCF. The Carton/Sack fee is assessed when 5-Digit cartons are placed on 3-Digit pallets; this fee compensates the Postal Service for distributing the 5-Digit Cartons/Sacks at the DSCF to the appropriate delivery units. Only when a 3-Digit pallet is entered at a DNDC would both Pallet and Carton/Sack fees be assessed, as the Postal Service would need to cross dock the pallet from the DNDC to the appropriate DSCF, and then break out the cartons to the appropriate DDUs before then transporting the samples to the DDUs.

- d. Confirmed.
- e. Pallets fees compensate the Postal Service for transporting pallets between facilities. A 3-Digit pallet entered at a DNDC must be transported only from the DNDC to the DSCF, while a 5-Digit pallet entered at a DNDC must be transferred to the DSCF and then on to the DDU, resulting in the higher price.
- f. The DNDC-3D price includes both a pallet fee and a carton fee while the DNDC-5D price only includes a pallet fee. While the 5-Digit pallet has a higher fee, there is still an incentive to prepare samples on 5-Digit pallets, when volume dictates, since the mailer using 5-Digit pallets will not need to pay any Carton/Sack fees. When volume increases and 5-Digit pallets

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can be prepared, total fees can be reduced by preparing 5-Digit pallets in lieu of preparing 5-Digit Cartons/Sacks on 3-Digit pallets. The fees are aligned with the Postal Service's costs for transporting containers and sorting cartons/sacks, so the most efficient preparation is encouraged.

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5. For each of the following Entry Point/Presort Pallet categories, please identify the operational steps involved in processing the parcel through delivery and the cost associated with each of these steps.
- a. DNDC–3-Digit;
 - b. DNDC–5-Digit; and
 - c. DSCF–5-Digit.

RESPONSE:

- a. The Postal Service will need to cross dock the samples and send them to the DSCF. Once the samples are at the DSCF, the Postal Service will need to break out the cartons of samples and send the cartons to the corresponding DDU.
- b. The operational steps involve cross docking from the DNDC through the DSCF and then on to the DDU. The bulk of the cost is transportation. Some mail processing costs are also incurred.
- c. The operational steps involve cross docking the pallets from the DSCF to the DDU. There is some mail processing costs incurred, but the bulk of the cost is transportation.

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First-Class Mail

6. Please refer to USPS-LR-R2013-1/1, Excel file: CAPCALC-FCM-R2013.xls, tabs: Presort Ltrs & Crds and Flats.
- a. Confirm that percentage change in price by product does not include any of the revenue forgone from the Mail to Mobile Promotions or the Earned Value Reply Mail Promotion. If not confirmed, please explain.
 - b. If subpart a. is confirmed, please recalculate the percentage change in price for each First-Class Mail product, taking into account revenue forgone from the Mail to Mobile Promotions and the Earned Value Reply Mail Promotion.

RESPONSE:

- a. Confirmed.
- b. The table below provides the recalculated percentage change in price for each product, taking into account revenue forgone from the Mail to Mobile Promotions and the Earned Value Reply Promotion. These results understate the percent changes for customers paying the base prices, but take account of the lower promotion prices available to promotion participants during promotion periods.

Percent Change Summary with Promotions Included – First-Class Mail

Single-Piece Letters & Cards	2.283%
Presort Letters & Cards w/Promotions	2.467%
Flats w/Promotions	2.674%
Parcels	4.971%
Parcels	7.923%
Overall	2.570%

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Special Services

7. Please explain the difference between:
 - a. Change-of-Address Customer Confirmation Letter Reprint; and
 - b. Change-of-Address Customer Notification Letter Reprint.

RESPONSE:

These items are the same. The correct terminology is Change-of-Address Customer Notification Letter Reprint. Errata to page 55 of the Notice, and to Attachment A, page 111, will be filed.